THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Required Report - public distribution

Date: 9/26/2017
GAIN Report Number:

Venezuela

Livestock and Products Annual

2017

Approved By:
Office of Agricultural Affairs

Prepared By:
Office of Agricultural Affairs

Report Highlights:
The Venezuelan economy is in crisis. Three years of economic contraction, hyperinflation, and diminishing hard currency for imported goods will negatively impact production, consumption, and trade for livestock, beef, and beef products.

Commodities:
Meat, Beef and Veal

Production:
Government of the Bolivarian Republic of Venezuela (GBRV) official data suggests that the Venezuelan cattle herd is 15.5 million head for 2016, distributed among 108,211 ranches and dairy farms. However, the Venezuelan Livestock Federation (Spanish acronym: FEDENAGA) estimates a herd size at 11.5 million head, based on data from regional member groups. Estimates for the total area of livestock production are about 13 million hectares (or 32 million acres).

In Venezuela, there are three livestock production systems: 1) non-specialized beef production; 2) dual purpose production (dairy and beef); and, 3) specialized dairy production. All systems, to varying degrees, supply livestock to the beef and beef product industry. Details of each system are as follows:

1) Non-specialized: The Zebu, or humped cattle, is the primary breed in non-specialized ranching operations, specifically the sub-species Nelore and Brahman. Non-specialized ranches are concentrated in the areas of the western plains of Venezuela, south of Lake Maracaibo and into the Andean piedmont and lowlands. This type of ranch applies minimal technology or is slow to adopt innovation representing about 42% of the national herd and contributing about 40% of beef production in Venezuela. Animal feed is almost solely foraged pasture.

2) Dual purpose: These herds are primarily hybrid cattle of the Venezuelan Criollo, Carora (a cross-breed of Braunvieh and Criollo), Holstein, Brown Swiss, and Brahman breeds. The cows are used for milk production and bull calf offspring are raised for beef production. Most dual purpose ranches are located in lowland zones of western Venezuela and apply some technology and innovation. Animal feeding is primarily foraged pasture and may include supplemental animal feed and minerals. This type of operation represents about 55% of the national herd and contributes 95% of dairy products and up to 60% of the beef and beef products produced in Venezuela.

3) Specialized dairy: Primary herd breeds include Carora, Holstein, Brown Swiss and Jersey. Dairy farms are primarily located in the Andean mountain zone of western Venezuela. Specialized dairy operations are apt for innovation and eager to adopt new technologies when feasible. Animal feeding is a mix of foraged pasture, silage, mixed rations and balanced feed. Specialized dairy farms only represent 3% of the national herd and contribute up to 5% of the milk produced in Venezuela.

Dual purpose ranches in the tropical climate regions of Venezuela have a strong, historical relationship with ranching operations in Southeast Texas. Those relationships over time resulted in shared innovations in animal nutrition techniques, rangeland management, business operations, and herd stock improvements, both from trade in genetics and more recently live cattle. In addition, this relationship has advanced Venezuelan livestock production, serving to enable the development of a number of industry services and consultants that provide the latest equipment and technology, as well as innovations in veterinary medicine and pasture management. The ongoing economic crisis in Venezuela continually challenges and diminishes the availability of these important services.

Moreover, production challenges are exacerbated by a shortage of vaccines and medicines to control serious animal diseases, such as foot-and-mouth, brucellosis and tuberculosis.

Venezuela was self-sufficient in beef production until 2003 when government policies subsidizing foreign exchange enabled excessive imports. This had the perverse effect of decreasing domestic beef production and market share against imported beef and beef products. Contributing factors of the livestock sector decline include:

- Highly subsidized imports of fresh and frozen beef;
- Rising costs, such as high security costs for the ranches along the Colombian border;
- Ranch expropriations by the GBRV;
- GBRV price controls for beef products;
- Hyperinflation;
- Shrinking margins and decreasing profitability.

Notwithstanding the tenuous situation for the sector, there exist some conditions, including climate, politics, and economics, that could enable a livestock industry rebound:

- More stable and lasting rainy seasons that have supported a recovery of pasture growth after severe droughts in 2015 and 2016;
- Less strict government enforcement of fixed prices for beef and beef products;
- Lower feed costs from foraged pasture and less dependence on imported feed ingredients, an issue detrimental to the production of poultry and pork meat;
- As a result of lower feed costs, beef is often cheaper than poultry and pork meat.

In general, the trend among Venezuelan livestock producers is to continue investing in operations. Post contacts have commented that more innovative ranches have higher returns than financially comparable business sectors. Also, while prices for beef and beef products were up 970% due to inflation, costs have only increased 350%.

Livestock slaughter, nevertheless, will likely fall in marketing year 2017-2018. In 2017, there were a total of 50 private and 12 government-owned medium to large scale packinghouse operations with a combined capacity to slaughter 1.8 million head annually. Post contacts indicate that most of these medium to large scale packinghouse operations are at 70% of capacity. There are also 214 small-scale slaughterhouses where the supply chain originates from modest sized ranches within the local municipality. The Ministry of Agriculture and Lands and the Ministry of Health regulate packinghouses to assure quality and sanitation.

Consumption:

As the Venezuelan economy is headed toward three consecutive years of contraction, triple digit inflation is expected to top 720% in 2017. Diminishing purchasing power challenges domestic consumption as prices for most basic foodstuffs increase almost daily. The Venezuelan market is characterized by having three primary beef and beef product marketing channels:

- Traditional: represents 60% market share that primarily includes local butcher shops that sell beef and beef products of low, medium and high quality, depending on location and the surrounding community's economic circumstance;
- Modern: represents 30% market share comprised of supermarkets and medium sized grocery stores, selling packaged, higher quality meat;
- Industrial: represents 10% market share comprised of beef renderers and packers.

Poultry meat is a substitute for beef; however, poultry processing struggles from the lack of imported feed materials and plummeting production. Beef is now price competitive with poultry meat and Post sources indicate that in lower income neighborhoods the price per kilogram for beef is often equal to, or slightly less, than poultry. As a result, the approximate per capita consumption of poultry and beef are comparable at 13 kilograms and 11 kilograms, respectively. These figures are notably down from just a few years ago when beef and poultry consumption were well over 20 kilograms per capita. Purchasing power challenges are motivating consumers to buy either low quality beef cuts and/or ground meat, but often families cannot afford beef products as a regular staple of the weekly family diet.

Trade:

The Venezuelan economy is heavily dependent on oil exports that support approximately 96% of all export revenues and about half of all government funding. High oil prices from 2004-2014 helped usher in a Venezuelan Central Bank policy that subsidized foreign exchange for food importers. GBRV regulations against excessive profits by the private sector resulted in those imported products often being sold at competitive prices displacing domestic production. Subsidized foreign exchange stimulated significant trade in frozen and/or chilled beef and beef products and live animals for slaughter in government packinghouses. The primary exporters for these products during that time period were Brazil, Argentina and Nicaragua.

Adverse economic conditions, land expropriations, and shortages of inputs prevented growth in the livestock industry and capabilities to adapt production to address import fluctuations. When imports fell after 2014, domestic production failed to compensate for that shortfall. The market continues to contract primarily from a sharp decrease in purchasing power and consequent reduction in consumption. A consumption recovery to historic levels above 20 kilograms per capita will require imports, in addition to government food subsidies and/or a substantial improvement in purchasing power. Neither scenario is foreseeable in the short term under the current economic crisis.

Venezuela banned all U.S. beef and beef products since 2003 due to regulatory concerns with bovine spongiform encephalopathy (BSE), or "mad cow" disease. The ban continues even though the World Organization for Animal Health (OIE) now classifies the United States as negligible risk for BSE. In 2016, however, a bilateral trade protocol for importing U.S. live cattle was finalized eliminating all BSE trade restrictions. The first shipments of U.S. live cattle in over a decade arrived in February 2017 with a follow-up shipment in July.

Policy:

Government imposed fixed prices on milk and most beef products have been in place since 2008 and continue as official policy, yet hyperinflation and lax government enforcement has made those fixed prices mostly irrelevant. Increasing scarcity of vaccines, supplies, and equipment to support GBRV specialized diagnostic laboratories have challenged the effectiveness of government managed animal health programs. Recently, the OIE decertified the Venezuelan foot and mouth disease eradication program after rejecting a revised plan submitted by the GBRV in early 2017.